ANNUAL REPORT for the year ended December 31st, 1972

THE ALGOMA STEEL CORPORATION, LIMITED

1972

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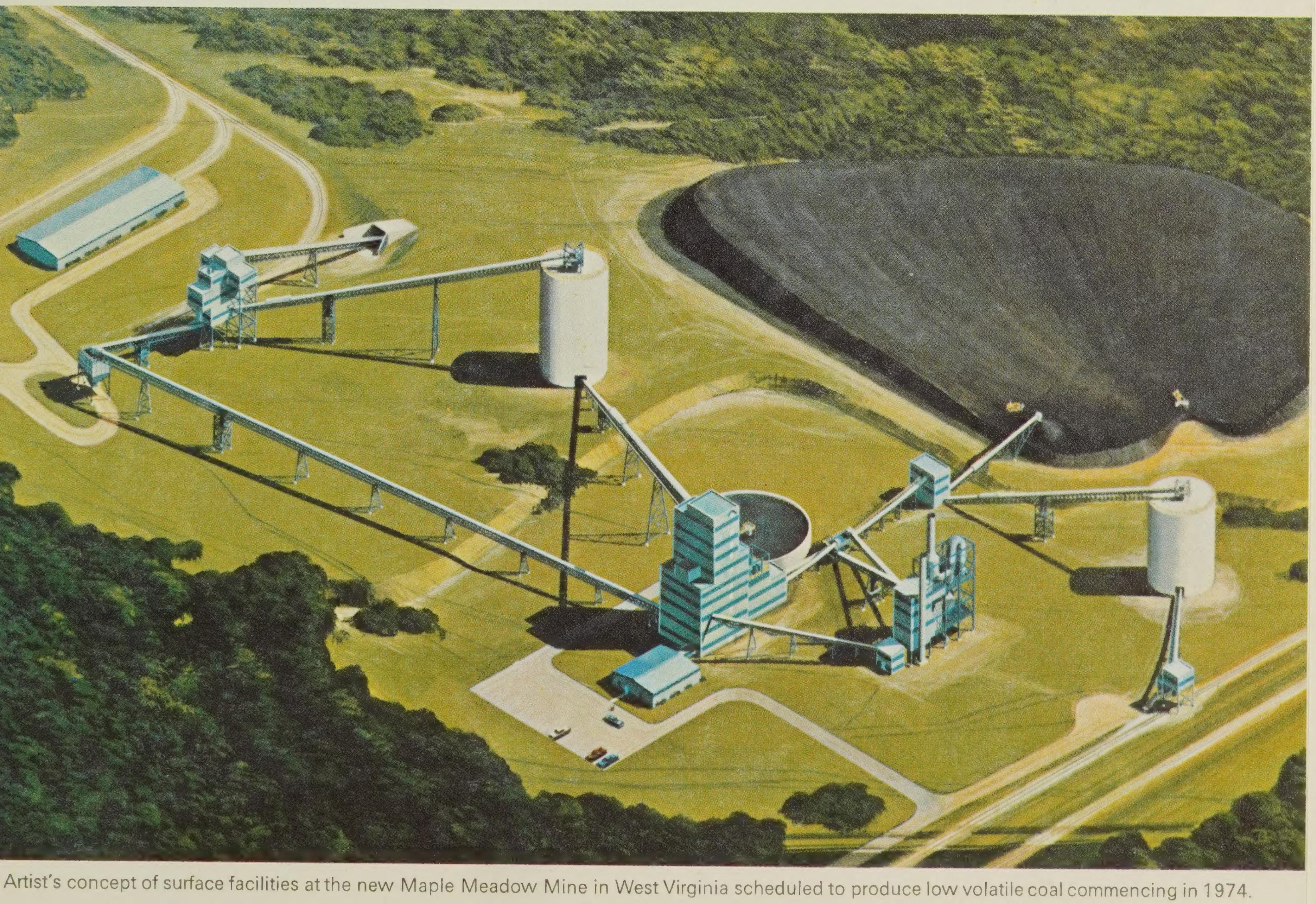
STATISTICAL SUPPLEMENT TO 1972 ANNUAL REPORT

WITH PICTURES FEATURING ALGOMA'S MINING ACTIVITIES



Artist's concept of surface facilities at the new Maple Meadow Mine in West Virginia scheduled to produce low volatile coal commencing in 1974.

COMPOSITION OF CONSOLIDATED SALES

	1972 %	1971 %	1970 %	1969 %	1968 %	1967 %	1966 %	1965 %	1964 %	1963 %
Steel products	93	92	92	88	91	90	91	89	88	85
Pig iron	4	4	3	6	5	6	6	8	8	11
Sinter				1	1	1	1	1	1	1
Coke, coal chemicals and sundry	3	4	5	5	3	3	2	2	3	3
	100	100	100	100	100	100	100	100	100	100

There has been very little change during the past three years.

GEOGRAPHICAL DISTRIBUTION OF CONSOLIDATED SALES

	1972 %	1971 %	1970 %	1969 %	1968 %	1967 %	1966 %	1965 %	1964 %	1963 %
Eastern Canada	15	13	16	13	12	13	15	14	13	12
Ontario	53	52	58	62	56	56	59	59	58	53
Western Canada	13	13	10	10	12	14	11	12	14	13
United States	19	21	16	15	20	17	15	15	15	22
Offshore		1								
	100	100	100	100	100	100	100	100	100	100

The proportion of export sales declined slightly in 1972.

STEEL SHIPMENTS BY PRODUCT CLASSIFICATION

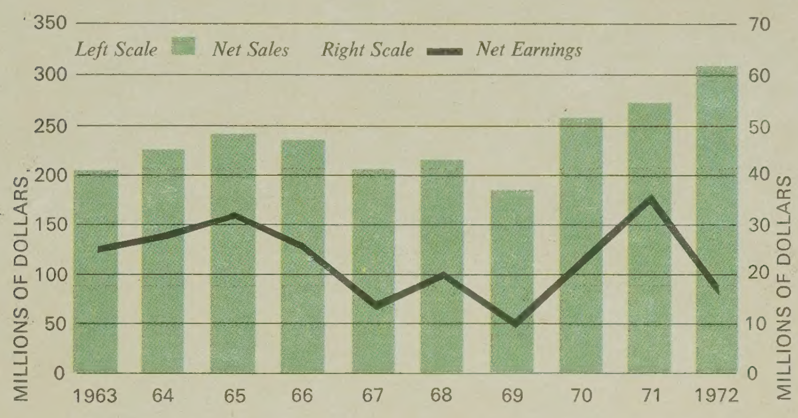
	1972 %	1971 %	1970 %	1969 %	1968 %	1967 %	1966 %	1965 %	1964 %	1963 %
Plate and sheet products	56	50	47	48	46	45	44	43	38	37
Structurals, including wide flange beams	23	23	24	24	21	21	22	19	21	20
Rails and fastenings	6	9	7	8	5	7	7	5	7	7
Bars and grinding media	5	5	5	5	6	6	5	5	5	5
Tube rounds, seamless tubes and skelp	10	9	12	11	15	11	13	18	22	19
Semi-finished		4	5	4	7	10	9	10	7	12
	100	100	100	100	100	100	100	100	100	100

The first full year's operation of the new 166″ plate mill resulted in increased shipments of flat rolled products in 1972 completely displacing shipments of semi-finished products.

Charts revised to reflect adoption of equity method of accounting for investment in associated company. Trends and data shown were influenced to a large extent in 1971 by a $21.5 million extraordinary addition to earnings.

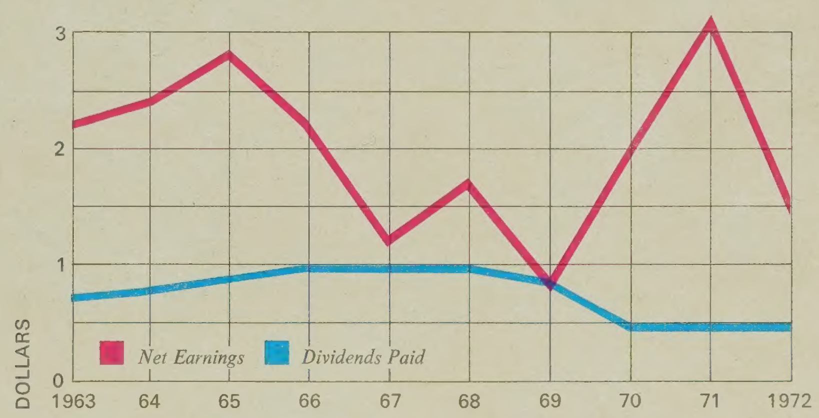
NET SALES AND NET EARNINGS

Sales increased 14 per cent in 1972 and net earnings decreased 51 per cent. However, exclusive of extraordinary credits in both years, earnings increased 6 per cent.



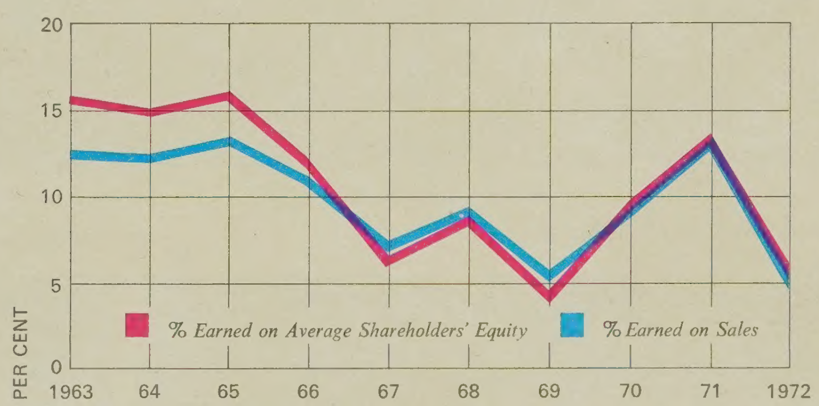
NET EARNINGS AND DIVIDENDS PER SHARE

Dividends of 12 ½ cents per quarter paid in 1972 represented 33 per cent of net earnings.



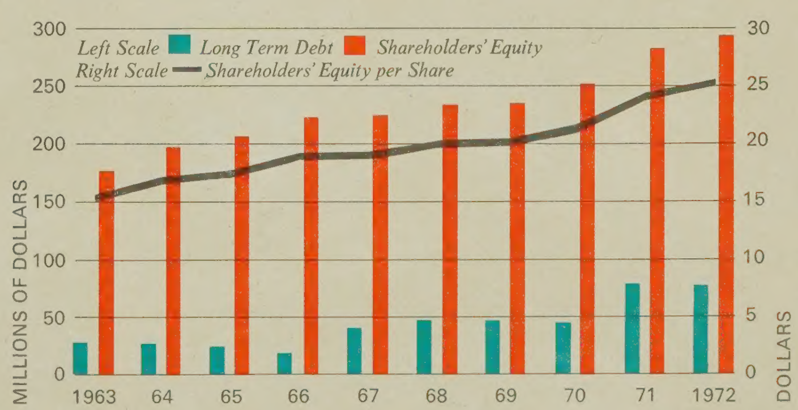
PER CENT EARNED ON AVERAGE SHAREHOLDERS' EQUITY AND ON SALES

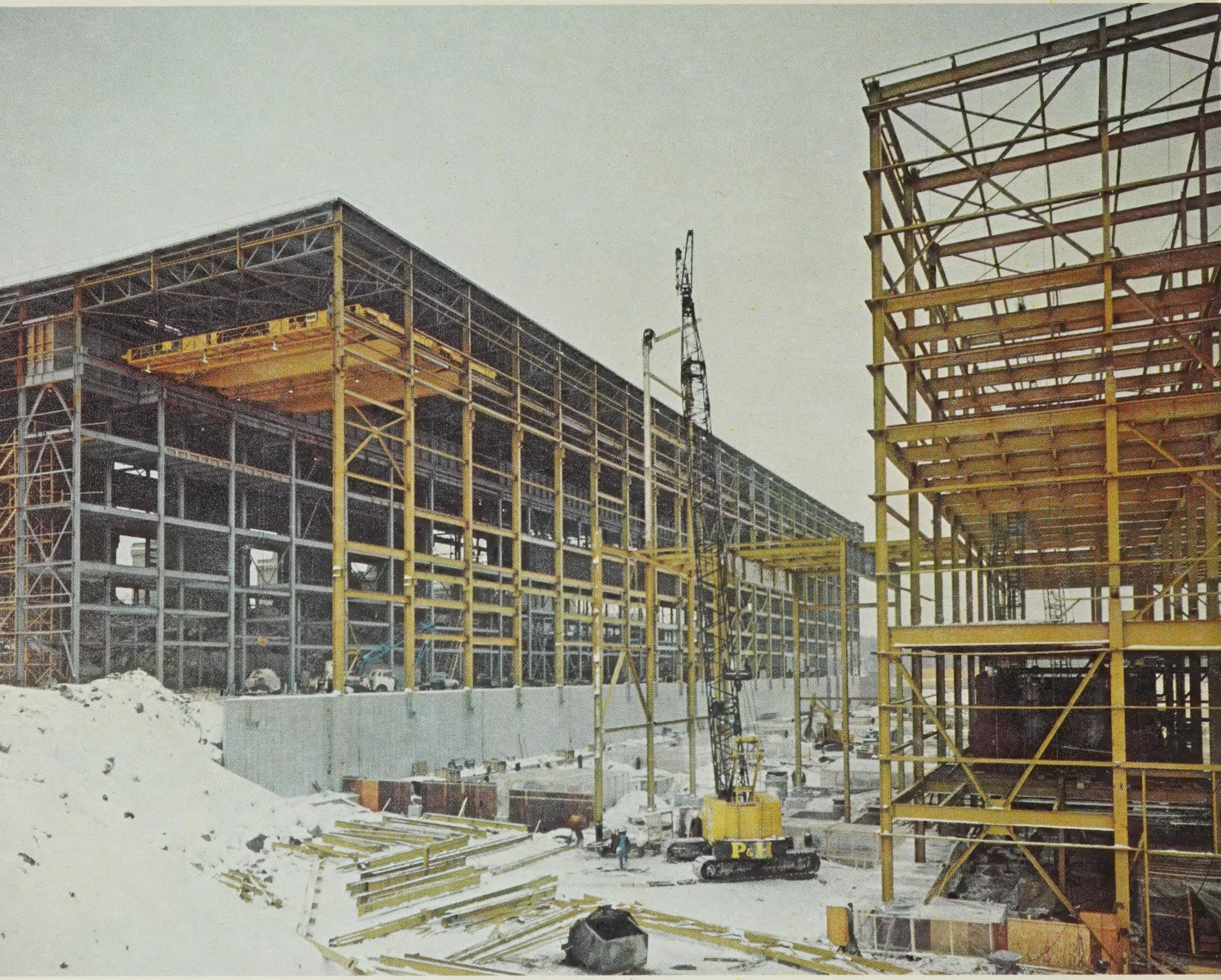
Earnings on equity and on sales declined to 6.2 per cent and 5.7 per cent respectively in 1972. The decline was caused by the large extraordinary credit in 1971.



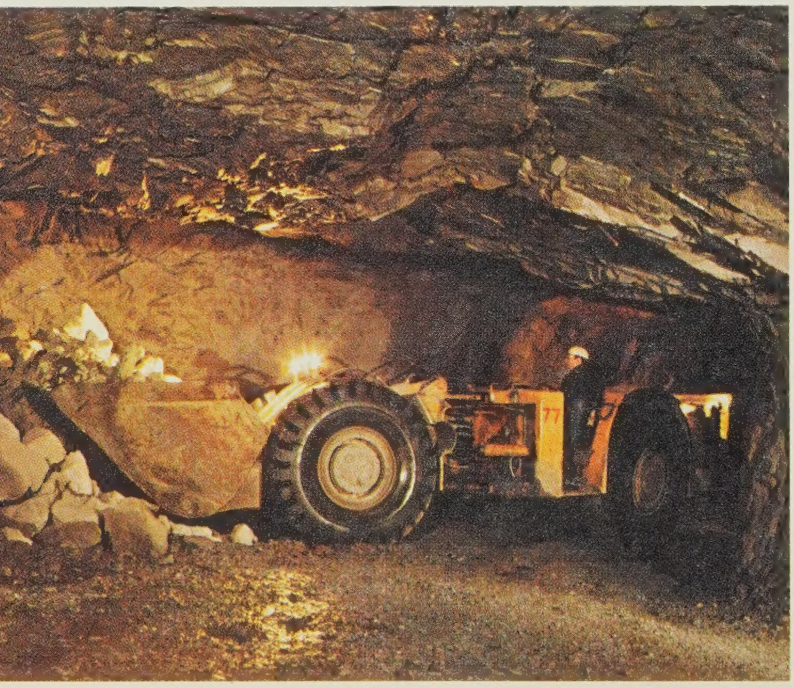
LONG TERM DEBT AND SHAREHOLDERS' EQUITY

Shareholders' equity increased 4 per cent to $25.41 per share in 1972 and long term debt declined slightly to 21 per cent of invested capital.





The Tilden iron ore concentrator in Upper Michigan will be the key to production of high quality pellets starting in 1974 for Algoma's expanded blast furnace requirements.



Introduction of trackless equipment at Wawa has improved mining conditions and productivity.

The cooling, crushing and cold screening plant constructed in 1972 at Wawa has improved the quality of Algoma Sinter.

CONTENTS

HIGHLIGHTS OF 1972

(with comparative figures for 1971)

		1972	1971 RESTATED	INCREASE OR (DECREASE)
		(dollars and tons in thousands except per share data)		
Net sales	$	310,045	271,796	38,249
Earnings before equity in earnings of associated company and extraordinary credits—total	$	12,499	11,666	833
—per share	$	1.08	1.01	.07
Earnings before extraordinary credits—total	$	15,427	14,601	826
—per share	$	1.33	1.26	.07
Net earnings—total	$	17,825	36,582	(18,757)
—per share	$	1.54	3.15	(1.61)
—per cent of income	%	5.7	13.4	(7.7)
—per cent of average shareholders' equity	%	6.2	13.7	(7.5)
Cost of products sold as per cent of net sales	%	84.7	84.6	.1
Dividends paid—total	$	5,798	5,799	(1)
—per share	$	.50	.50	
Capital and mine development expenditures	$	52,005	39,060	12,945
Depreciation and amortization	$	20,620	18,890	1,730
Long-term debt at year end	$	76,800	77,800	(1,000)
Production—iron	N.T.	2,288	2,136	152
—raw steel	N.T.	2,426	2,360	66
Shipments—steel products	N.T.	1,740	1,681	59
Approximate number of shareholders at year end	No.	16,191	17,080	(889)

The Annual Meeting of Shareholders will be held at the Windsor Hotel, Sault Ste. Marie, Ontario, Thursday, April 19, 1973, at 2:15 p.m., Eastern Standard Time. A formal notice of the Meeting, an information circular and a proxy are enclosed with this Report.

PRESIDENT'S LETTER

TO THE SHAREHOLDERS:

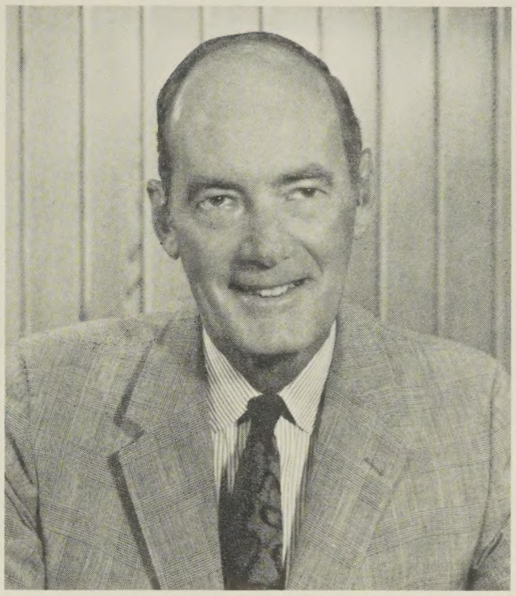
After a relatively slow start in the first quarter of 1972, markets for steel products strengthened and Canadian raw steel production for the year reached a record of 12.9 million tons, an increase of nearly 8 per cent over 1971, and slightly above the previous high in 1970.

Except during the early part of the year and six weeks in the autumn when a large blast furnace was relined, Algoma's steelmaking facilities operated at almost full capacity. Shipments of rolled steel products set a record, reflecting in part the benefit gained from the 166" plate mill.

Adoption of equity accounting for the Corporation's shareholding in an associated company reflects the value of this investment more realistically.

The next major production unit to come on stream will be the No. 2 basic oxygen steel plant which is expected to be in operation early in the second quarter of 1973. This plant will produce a greater tonnage of steel at a lower cost than the open hearth furnaces it will replace, with minimum effect on the environment.

Construction has started on a large blast furnace scheduled for completion late in 1974 which will have about double the ironmaking capacity of the largest existing furnace. In addition, construction will be started this year on a continuous slab casting plant and a coke oven battery, both of which are expected to be completed in 1975.



Chairman and President
David S. Holbrook

It is with very great regret that the death is recorded on September 2, 1972, of T. R. McLagan, O.B.E., who had been a highly valued member of the Board of Directors from 1952 to 1970 and an honorary director since then.

The Board of Directors held four meetings in each of Montreal and Toronto and two in Sault Ste. Marie.

It is again a pleasure to acknowledge with appreciation the loyalty and efforts of employees and the continued support of customers.

D. S. Holbrook
Chairman and President

Sault Ste. Marie, Ontario
February 7, 1973.

REVIEW OF 1972 OPERATIONS

Financial

In 1972 the Corporation adopted the equity method of accounting for its holding of 44 per cent of the shares of Dominion Bridge Company, Limited as recommended by The Canadian Institute of Chartered Accountants. Previously only dividends received on this investment were included in earnings and the investment was carried on the balance sheet at cost. The Corporation's $5.3 million share of the earnings of this associated company was included in earnings and the amount at which this investment is carried on the balance sheet was increased to reflect Algoma's share of that company's undistributed earnings. Note 2 to the financial statements explains the effect of this change in accounting in more detail.

Consolidated net sales of $310 million surpassed the previous high in 1971 by 14 per cent. Net earnings were $17.8 million and cash flow from earnings $32.7 million, representing $1.54 and $2.82 per share respectively. Exclusive of the equity in earnings of the associated company and of the $21.5 million gain from the sale of shares of Canada Steamship Lines, Limited, earnings were approximately 7 per cent higher than in 1971.

Production costs were 84.7 per cent of sales which was slightly higher than in 1971, although only a fraction of a substantial increase in employment costs was offset by additional revenue from price increases. Significant increases were also experienced in other cost elements, including services, electric power, and fuels—especially coal, however, the impact of these increases was practically offset by economies from improved operations, higher production and added revenue.

An agreement reached in 1972 resolved all matters related to financial problems in which The Toronto Iron Works, Limited and its wholly owned subsidiaries became involved in 1967 and all lawsuits against Algoma and its officers were withdrawn.

Interest on long term debt rose in 1972 reflecting a full year's interest on the series D debentures sold in March, 1971. At the end of the year, over $136 million was invested in plant and equipment which was not earning income either because it was under construction or could not be fully utilized until other projects are completed. This unused investment again depressed earnings and will continue to do so, on a diminishing basis, until expansion of capacity is completed.

Costs of mine development and equipment for mining ore were again amortized at rates intended to write them off over estimated recoverable reserves, and all other fixed assets, except land, were depreciated at rates calculated to write them off over their useful lives. The increase of nearly $2 million in depreciation and amortization represented, largely, depreciation on the investment in the 166″ plate mill which operated throughout 1972.

Depletion allowances for tax purposes on income attributable to coal, sinter and pellets from owned and leased mines practically eliminated current

income taxes and reduced the deferred tax liability. The tax status of income earned by the Ruth and Lucy Mine from 1968 to 1970 is expected to be resolved in 1973.

Dividends were continued at a quarterly rate of 12.5 cents per share in 1972 and a total of $5.8 million was paid to shareholders. Under the new Income Tax Act, Canadian shareholders are not entitled to claim depletion allowance on dividends paid by the Corporation after December 31, 1971.

Working capital declined $30 million during the year, reflecting, essentially, the excess of capital expenditures over funds available from earnings, and the ratio of current assets to current liabilities was 1.7:1 at the year-end. Higher sales resulted in a 16 per cent increase in accounts receivable.

Under agreements signed in mid-1972, a subsidiary became a participant with The Cleveland-Cliffs Iron Company and four steel companies in a joint venture to produce iron ore pellets from ore mined from the Tilden property near Marquette in upper Michigan, U.S.A. Production is expected to start in mid-1974 at an annual rate of 4 million tons and Algoma will receive 1.2 million tons per annum, reflecting a 30 per cent interest in the venture. The Corporation invested $4.4 million in this project to the end of 1972 and will have invested a further $3.8 million by the time production starts. Algoma's share of pre-production costs is being deferred and will be amortized from the start of production. Details of undertakings in this respect are given in Note 5a to the financial statements.

Arrangements were completed with United States lenders to finance development of the Maple Meadow Mine in West Virginia. Production of low volatile coal from this property is expected to start in 1974 and to increase gradually to a rate of 1.25 million tons per annum by early 1977. This tonnage will exceed requirements for cokemaking for several years and an agreement was entered into under which a total of 5 million tons will be sold to another Canadian steel producer over 12½ years starting in 1975. Details with respect to the financing of this Mine are given in Note 7 to the financial statements.

Late in 1972, based on applications by the Corporation, the federal Department of Regional Economic Expansion offered two $6 million regional development incentive grants and these were accepted. One grant is in respect of a planned $30 million capital expenditure for new product expansion involving installation of a plant for the continuous casting of steel slabs; the other is for modernization and expansion of the Steelworks and relates to a planned $50 million expenditure for a new blast furnace (No. 7) and associated facilities. Payment of 80 per cent of each grant will be made when the applicable project is in commercial production and the balances will be paid within the following 2½ years.

A Statistical Supplement, containing a 10-year summary of financial and operating data, is enclosed at the front of this Report. The pictures on the cover of the Supplement feature activities in mining iron ore and coal which are the life-blood of any integrated steelworks. Completion of the agreements with respect to the Tilden and Maple Meadow Mines should assure long term supply of iron ore pellets and low volatile coal.

The following "Valuation Day" values were placed on Algoma shares and debentures by the Department of National Revenue:

	Per Share
Capital stock	$ 13.38
	Per $100 Principal Amount
Debentures	
Series A	$ 90.00
Series C	$ 94.00
Series D	$103.50

Sales

A record 1.74 million tons of finished steel products were shipped in 1972. This, together with sale

of a larger proportion of higher-priced products and minor increases in the prices of most finished steel products during the last four months of the year, resulted in the record sales of $310 million.

At the start of 1972 the order backlog for steel products was relatively low, the market for products used by the construction industry was weak and inventories of these products were high. In addition, exports were impaired by aftereffects of the 10 per cent surcharge on imports imposed by the United States from August 15 to December 20, 1971. As a result, both domestic and export shipments were at a depressed level in the first quarter of the year. Markets gradually strengthened as the year progressed, partly because of customers building inventories in anticipation of possible strikes in the Canadian steel industry. During the last three months, markets were strong and more steel products were shipped than could be produced which resulted in a reduction in finished product inventories.

Offshore shipments were negligible and export shipments to the United States declined, the major reason being that the Canadian market strengthened more rapidly than the market in the United States.

Imports of steel products into Canada increased slightly in 1972 and are estimated to have exceeded two million tons or 19 per cent of Canadian steel consumption.

Operations

Operating levels were higher in 1972 both at the mines and the Steelworks as shown below:

		PRODUCTION 1972	PRODUCTION 1971
		(thousands of tons)	
Algoma Sinter	G.T.	1,758	1,639
Coal	N.T.	2,490	2,202
Coke	N.T.	1,413	1,375
Iron	N.T.	2,288	2,136
Raw Steel	N.T.	2,426	2,360

Production of Algoma Sinter at the Algoma Ore Division was restricted to the tonnage required for ironmaking at the Steelworks and Canadian Furnace Divisions. Sinter from the cooling, crushing and cold screening plant which started operating late in the year is more uniform in size which will improve blast furnace productivity and reduce the amount of coke required to produce each ton of iron. Record production was achieved from the MacLeod Mine in which over half the mining is now being done with trackless equipment.

Almost all the iron-bearing materials used in the blast furnaces came from the MacLeod Mine and the leased mine at Steep Rock Lake.

Production of metallurgical coal by Cannelton Industries, Inc. was insufficient for cokemaking requirements and 270,000 tons were purchased. The low volatile coal mines are nearing exhaustion and production rates and the quality of coal from them are deteriorating with resulting increases in costs. These mines may be closed when the tonnage from them is replaced with coal from the Maple Meadow Mine.

Production of iron was considerably below capacity while Nos. 4 and 6 blast furnaces were being relined and slightly below capacity during the rest of the year as a result of increasing the consumption of scrap generated by operations in order to avoid a build-up in inventories.

During the first quarter of 1972, steelmaking operations were held below capacity to reduce work-in-process inventories. Throughout the balance of the year, steel was produced at the highest possible rate and, in the latter half, market requirements exceeded production capacity. Additional raw steel will be available when No. 2 basic oxygen steel plant is brought into production.

Large tonnages of continuously cast blooms were rolled into rails and seamless tubes with generally satisfactory results and the major Canadian railways

approved the use of this type of steel for the production of rails.

The 45″ blooming mill and auxiliary equipment which was installed in October and the 166″ plate mill performed up to expectations. High-strength plate, which meets stringent physical standards such as those specified for steel to be used in large diameter gas transmission lines under extremely low temperatures in northern Canada, was produced using newly developed steelmaking and rolling practices.

Seamless casing shipped into the United States is now being finished at the Chippewa Tube Division plant near Sault Ste. Marie, Michigan, which began operating in October.

Environment

Approximately $5 million was spent to improve the quality of air and water from operations and environmental considerations are basic and costly factors in the design of new facilities. Replacement of the old open hearth furnaces with the modern oxygen steelmaking plant will improve air quality at the Steelworks considerably.

A noise abatement program was undertaken which will improve working conditions. In areas where noise exceeds specified levels, employees wear ear protectors and action is being taken to reduce these levels.

Major environmental control steps taken in 1972 and under way include:

Improvement of cokemaking practices and equipment;

Air and water quality control facilities and gas handling equipment for the new No. 9 coke oven battery;

Additional equipment to clarify water from iron and steelmaking operations;

Cooling tower to control the temperature of water from No. 2 basic oxygen steel plant;

Pipe line which will permit mixing water from the MacLeod Mine and sinter plant at Wawa to attain acceptable purity levels;

Study of methods to improve the quality of emissions from the sinter plant at Wawa;

Closed circuit system at the Kanawha Mines coal preparation plant in West Virginia to eliminate the discharge of process water.

Improvements, Additions and Alterations

Capital and mine development expenditures were approximately $52 million and the following major projects were completed at the Steelworks Division:

Reline of two blast furnaces, one large (No. 6) and one small (No. 4);

Rebuilding the highline at No. 6 blast furnace and replacement of raw material bins;

45″ mill stand of modern design to replace the old 44″ blooming mill roll stand;

Central air compressing equipment of modern design to replace rented compressors;

High-level storage system in the Stores building to store additional parts.

Projects under way at the year-end or to be started at the Steelworks in 1973 include:

New coal storage and handling facilities—the equipment for stocking and reclaiming coal from the new storage area will be fully operational by the start of navigation in 1973;

New coke oven battery (No. 9) and auxiliary equipment to replace a battery nearing the end of its life and add cokemaking capacity required for greater raw steel production;

Screening equipment at a central location to improve the uniformity in size of raw materials for use in the blast furnaces;

Rebuilding the highline at No. 4 blast furnace and replacement of raw material bins;

New large blast furnace (No. 7) with a new boiler and turbo blower to permit high top pressure operation of the furnace;

Second L.D. oxygen steel plant which will increase annual raw steel production capacity to approximately four million tons when other major facilities in the expansion program are completed;

Facilities for improving steel quality (bottom pouring ingots and desulphurizing iron);

Second plant to produce burnt lime for the new L.D. oxygen steel plant;

New two-strand continuous slab casting plant which will have a capacity of 750,000 tons of product per year;

Relocation of 106″ strip mill finishing stands and coilers;

Modifications to structural finishing equipment and installation of additional handling facilities to increase shipments of wide flange beams and structurals.

At the Algoma Ore Division, a new sinter cooling, crushing and cold screening plant was completed and additional trackless mining equipment was acquired. A comprehensive study indicated that mining of the MacLeod Mine at greater depth is physically possible and the economics of deeper mining are being examined.

Cannelton Industries, Inc. completed construction of its Chippewa Tube Division Plant near Sault Ste. Marie, Michigan. At this plant seamless casing for sale in the United States is threaded, couplings are attached and casing is tested. Work progressed on development of the new Maple Meadow low volatile coal mine at Fairdale, West Virginia and the feasibility of increasing production from Cannelton's high volatile coal reserves, or of acquiring and developing other properties, is being studied.

Employee, Community and Public Relations

New three-year collective labour agreements, effective until July 31, 1975, were signed with seven local unions representing employees at the Steelworks, Algoma Ore and Canadian Furnace Divisions. Pattern-setting agreements with the major local union were concluded before the expiry date of the previous contract, and no interruptions to normal work schedules or production occurred.

The new agreements are the most costly ever made by the Corporation but are in line with settlements by other major companies. They include substantial increases in base rates, shift differentials and job class increments, assumption of the full cost of the employees' welfare plan and of a dental plan introduced January 1, 1973, and major improvements in pension plans which are non-contributory. The larger part of the increase in employment costs occurs in the first year of the new agreements.

Collective agreements with the local union representing production and maintenance employees of the Tube Division at Sault Ste. Marie expire February 28, 1973, and negotiation of new agreements is in progress.

Employee development programs were expanded and strengthened with emphasis on improving job-related skills. A formal training program was instituted to upgrade the skills of millwrights and motor inspectors and apprenticeship programs to develop skilled tradesmen were continued. Over 200 employees took advantage of the educational assistance program to further their education at local colleges and universities.

The recent success of a "Suggestion Month" program prompted extension of this program to a year-round basis. Continuing emphasis is placed on

gaining company-wide employee participation in this program and in a new Method Improvement Program.

The Corporation again encouraged active employee participation in safety programs and the number of compensable accidents declined.

Employees were encouraged to take part in the activities of community service, cultural and educational organizations and the Corporation supported worthy Canadian fund-raising projects, including a very successful United Appeal Campaign in Sault Ste. Marie.

Communications were maintained at a high level with employees through regular publication of a newspaper and a Management News Letter, and by means of an in-plant "hot line" telephone system. In addition, regular meetings were held with union executives which again proved to be mutually beneficial.

At Cannelton Industries, Inc., operations were affected by labour unrest in the West Virginia coal industry which was aggravated by several tragic accidents in the industry and by political upheaval within the major union. Nine work stoppages occurred, mainly as a result of disputes over job posting, work assignments and activities of roving pickets from other mines.

Changes in Board and Senior Management

T. R. McLagan, an Honorary Director, died September 2, 1972.

Ross H. Cutmore was appointed Vice President—Finance and William J. Reed was appointed Comptroller, May 1, 1972.

Outlook

The expansion program announced by Algoma in 1965 will be substantially finished late in 1974 when construction of No. 7 blast furnace is completed. The only additional major production facilities to be installed to complete further expansion plans are the continuous slab casting plant and the coke oven battery which are expected to be in operation by the end of 1975. This will raise annual raw steel production capacity to approximately 4 million tons and there will be rolling mill capacity to process this tonnage into finished steel products.

The road to greater capacity has been difficult because expansion had to be total—that is, major expenditures had to be made on all processes from mines to rolling mills and product finishing facilities. This has resulted in unavoidable imbalances in production facilities, however, when the expansion is completed, the Corporation's physical plant and equipment will be modern and balanced.

The Canadian economy should continue to strengthen in 1973 and markets for steel products look promising for at least the first half of the year. The tonnage of steel products imported into Canada should slacken somewhat as a result of strengthening of the economies of Europe and the Far East and new production and shipment records will probably be set by the Canadian steel industry.

The first addition to overall capacity will be realized when No. 2 basic oxygen steel plant comes into production and Algoma will then be in a better position to take advantage of the predicted strong markets for its products. Each successive step forward toward expanded capacity and increased productivity increases the potential for higher profitability.

D. S. HOLBROOK
CHAIRMAN and PRESIDENT

THE ALGOMA STEEL CORPORATION, LIMITED AND SUBSIDIARIES

CONSOLIDATED EARNINGS FOR THE YEARS ENDED DECEMBER 31, 1972 AND 1971

		1972	1971 Restated
INCOME	Net sales	$310,045,081	$271,795,770
	Other	312,898	1,400,651
		310,357,979	273,196,421
EXPENSES	Cost of products sold	262,534,121	229,891,926
	Rearranging plant	452,984	316,330
	Administrative and selling (after deducting recovery of $1.5 million in 1972 and $1.3 million in 1971 on doubtful receivables)	7,945,860	5,978,300
	Interest and expense on long term debt	5,899,250	5,283,968
	Interest on short term loans	707,221	998,877
	Depreciation and amortization	20,619,796	18,890,261
		298,159,232	261,359,662
		12,198,747	11,836,759
INCOME TAXES (Note 3)	Current	109,315	171,064
	Deferred	(410,000)	—
		(300,685)	171,064
EARNINGS	Before equity in earnings of associated company and extraordinary credits	12,499,432	11,665,695
	Equity in earnings of associated company (Note 2)	2,928,000	2,935,000
	Before extraordinary credits	15,427,432	14,600,695
EXTRAORDINARY CREDITS	Gain on sale of long term investment	—	21,504,174
	Equity in extraordinary gains of associated company (Note 2)	2,398,000	477,000
NET EARNINGS		$ 17,825,432	$ 36,581,869
EARNINGS PER SHARE	Before equity in earnings of associated company and extraordinary credits	$ 1.08	$ 1.01
	Before extraordinary credits	$ 1.33	$ 1.26
	Net earnings	$ 1.54	$ 3.15

CONSOLIDATED RETAINED EARNINGS FOR THE YEARS ENDED DECEMBER 31, 1972 AND 1971

	1972	1971
Balance at beginning of year as previously reported	$262,249,181	$233,729,427
Equity in undistributed earnings of associated company from dates of acquisition of shares thereof (Note 2)	9,471,763	7,208,969
Balance at beginning of year as restated	271,720,944	240,938,396
Net earnings	17,825,432	36,581,869
	289,546,376	277,520,265
Dividends paid	5,797,689	5,799,321
Balance at end of year	$283,748,687	$271,720,944

See Notes to Consolidated Financial Statements on pages 14 and 15.

Subject to the accompanying Auditors' Report dated January 18, 1973.

THE ALGOMA STEEL CORPORATION, LIMITED AND SUBSIDIARIES

CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

FOR THE YEARS ENDED DECEMBER 31, 1972 AND 1971

		1972	1971 Restated
FUNDS WERE PROVIDED BY	Cash flow from earnings		
	Net earnings	$ 17,825,432	$ 36,581,869
	Transactions not resulting in an outlay or receipt of funds:		
	Depreciation and amortization	20,619,796	18,890,261
	Income tax applicable to future years	(410,000)	—
	Excess of expenditures over accruals for replacement of furnace linings, etc.	(1,608,803)	(1,407,088)
	Equity in undistributed earnings of associated company	(3,774,572)	(2,262,794)
		32,651,853	51,802,248
	Recovery on non-current accounts receivable	—	627,319
	Cost of long term investment sold	—	2,492,346
	Net proceeds from long term loans	1,200,000	33,257,426
	Other—net	203,142	404,574
		34,054,995	88,583,913
FUNDS WERE APPLIED TO	Plant and equipment additions	50,839,907	37,998,968
	Mine development	1,165,179	1,061,051
		52,005,086	39,060,019
	Investment in joint venture	3,275,625	1,125,829
	Retirement of long term debt	2,200,000	2,200,000
	Reduction of accrued past service pension cost	834,141	1,853,120
	Dividends	5,797,689	5,799,321
		64,112,541	50,038,289
WORKING CAPITAL	Increase (decrease) during year	(30,057,546)	38,545,624
	At beginning of year	84,248,607	45,702,983
	At end of year	$ 54,191,061	$ 84,248,607

See Notes to Consolidated Financial Statements on pages 14 and 15.

Subject to the accompanying Auditors' Report dated January 18, 1973.

CONSOLIDATE

AS AT DECE

ASSETS	1972	1971
		Restated
CURRENT		
Cash	$ —	$ 2,705,474
Marketable investments, at cost which approximates market	98,860	2,717,915
Accounts receivable	51,589,670	44,403,747
Inventories (Note 4)	74,799,113	72,307,581
Prepaid expenses	2,993,809	2,626,825
Total current assets	129,481,452	124,761,542
LONG TERM INVESTMENTS		
Associated company (Note 2)	41,038,792	37,264,220
Joint venture, at cost (Note 5a)	4,401,454	1,125,829
	45,440,246	38,390,049
FIXED ASSETS		
Property, plant and equipment, at cost (Note 5b and c)	583,587,796	533,298,816
Mine development, at cost	15,472,377	15,560,492
	599,060,173	548,859,308
Accumulated depreciation, depletion and amortization	272,512,260	255,139,475
	326,547,913	293,719,833
UNAMORTIZED DEBENTURE EXPENSE	677,598	714,727
	$502,147,209	$457,586,151

On behalf of the Board

D. S. HOLBROOK Director

G. WAGNER Director

MITED AND SUBSIDIARIES

ALANCE SHEET

2 AND 1971

LIABILITIES	1972	1971
		Restated
CURRENT		
Cheques outstanding less cash on deposit	$ 5,598,082	$ —
Notes payable—secured by assignment of accounts receivable and inventories		
—Bank loan	1,963,000	—
—Bankers acceptances	16,000,000	—
Accounts payable and accrued liabilities	48,472,105	37,586,460
Taxes payable	3,257,204	2,926,475
Total current liabilities	75,290,391	40,512,935
LONG TERM DEBT—SECURED (Note 7)	76,800,000	77,800,000
ACCRUED PAST SERVICE PENSION COST (Note 8)	16,306,686	17,140,827
DEFERRED INCOME TAXES	39,078,000	39,488,000
SHAREHOLDERS' EQUITY (Note 9)		
Capital stock		
Shares of no par value		
Authorized—30,186,704		
Issued —11,595,378	10,923,445	10,923,445
Retained earnings	283,748,687	271,720,944
	294,672,132	282,644,389
	$502,147,209	$457,586,151

See Notes to Consolidated Financial Statements on pages 14 and 15.

Subject to the accompanying Auditors' Report dated January 18, 1973.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION

The statements consolidate the accounts of all subsidiary companies. The assets and liabilities and results of operations of United States subsidiaries are included assuming $1 Canadian equal to $1 United States; if these were converted to the actual Canadian dollar equivalent, there would not be any material effect on the financial statements of the Corporation.

2. CHANGE IN ACCOUNTING PRINCIPLE

In 1972, as recommended by The Canadian Institute of Chartered Accountants, the equity method of accounting was adopted with respect to the Corporation's holding of 44 per cent of the outstanding shares of Dominion Bridge Company, Limited. Previously this investment was carried at cost and income thereon was included in earnings only to the extent received as dividends.

To give effect to this change, the Corporation included in 1972 earnings its equity in this associated company's earnings for the twelve months ended September 30, 1972, restated its earnings for 1971 on a comparable basis and included in 1971 retained earnings its equity in undistributed earnings of previous years; the value shown in the balance sheet for this investment has been increased accordingly. The twelve months ended September 30 has been used since financial statements of the associated company for the year ended December 31, 1972 were not available before the Corporation's financial statements were completed. Consequently the determinations of earnings were based on unaudited financial statements as at September 30 in conjunction with audited financial statements at the associated company's financial year ends in the relevant years.

This change in principle resulted in an increase of $3.8 million in earnings for 1972 (33 cents per share). The excess of the Corporation's equity in the underlying net assets of Dominion Bridge Company, Limited over the cost of the Corporation's investment in that company at the dates of acquisition is not significant.

3. INCOME TAXES

Provision for income taxes for 1972 was reduced by $5.2 million since depletion allowances are claimed in determining income for tax purposes.

4. INVENTORIES

Finished products and work in process are valued at the lower of cost or net realizable value, and raw materials and supplies are valued at the lower of cost or replacement cost. Inventories at December 31, 1972 and 1971 are:

	1972	1971
	(millions of dollars)	
Finished products	$13.3	$15.4
Work in process	21.5	17.7
Raw materials and supplies .	40.0	39.2
	$74.8	$72.3

5. COMMITMENTS

(a) Investment in joint venture represents an advance to Tilden Iron Ore Company (participant in a joint venture to produce iron ore pellets) by a subsidiary of the Corporation which has agreed to advance an estimated additional $3.8 million in 1973 and 1974. The subsidiary is entitled to receive its share of pellets estimated at 1.2 million tons per annum and is committed to pay its 47 per cent share of Tilden's costs, including amounts sufficient to repay its share of that company's long term debt.

The Corporation has entered into agreements under which it may be called upon to invest amounts in the subsidiary which would be available to meet such commitment of the subsidiary. At December 31, 1972, 47 per cent of Tilden's long term debt is $12.8 million.

(b) A subsidiary of the Corporation is developing a coal mine involving expenditures estimated at $27.5 million and commitments of approximately $8 million for this development are outstanding at December 31, 1972.

(c) Commitments of approximately $42 million are outstanding at December 31, 1972 for expenditures on plant, equipment and mines other than those referred to above and are to be made in 1973 and subsequent years.

6. LEASES

Minimum annual rentals under long term leases are approximately \$2.5 million. This amount includes lease of a seamless tube plant which expires in 1986 and contains annual options to purchase from 1977. Other long term leases are principally of raw material properties.

7. LONG TERM DEBT—SECURED

	1972	1971
	(millions of dollars)	
Debentures		
5¼% series A maturing 1978	\$14.0	\$15.0
7⅜% series C maturing 1987	27.6	28.8
8¾% series D maturing 1991	34.0	34.0
	75.6	77.8
Loan under revolving bank credit	1.2	—
	\$76.8	\$77.8

Sinking fund and other repayment requirements in each of the next three years are \$2.2 million, in the fourth year \$2.85 million and in the fifth year \$3.35 million.

The total amount available under the revolving bank credit for development of the coal mine, referred to in Note 5b, is \$27.5 million and is to be borrowed in increments of up to \$5.5 million. As each increment of \$5.5 million is borrowed up to \$22.0 million, it is to be converted into a term loan bearing interest at 8½% maturing in 1991. The balance of loans under the revolving credit is to be converted to a term loan maturing in 1980 bearing interest varying with the lender's prevailing prime commercial rate.

8. PENSIONS

The estimated unfunded amount for pensions earned by past service is \$57.2 million which includes an increase of \$18.6 million resulting from 1972 revisions in pension agreements and is comprised of the following:

	(millions of dollars)
Accrued in current liabilities	\$ 4.3
Accrued in non-current liabilities	16.3
Not accrued	36.6
	\$57.2

Pension costs charged against earnings include those arising from current service, interest on the past service liability and annual payments in respect of \$36.6 million not accrued. It is planned that future payments will discharge all past service liabilities by 1989.

9. SHAREHOLDERS' EQUITY

As long as series A debentures are outstanding, the Corporation must meet certain financial requirements before paying dividends or reducing share capital and these are exceeded by a substantial amount.

No options were granted during 1972 under the stock option plan. There are unexercised options at December 31, 1972 on 69,750 shares terminating in 1974 and 26,000 in 1979 at \$15.19 per share.

10. REMUNERATION

Total remuneration of directors and senior officers amounted to \$722,801.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Algoma Steel Corporation, Limited and subsidiaries as at December 31, 1972 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. As explained in Note 2 to the financial statements, the Corporation's equity in the earnings of the associated company has been determined in part on the basis of unaudited financial statements. Where audited financial statements of the associated company have been used we have relied on the reports of other auditors.

In our opinion, except for the effect of any adjustments which audits of the financial statements of the associated company would have disclosed, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year as restated (see Note 2).

Sault Ste. Marie, Ontario
January 18, 1973

"PEAT, MARWICK, MITCHELL & CO."
Chartered Accountants

COMPARISON OF FINANCIAL AN

SUMMARY OF OPERATIONS AND NET EARNINGS (thousands of tons and millions of dollars)

	Production												
Year	Coal net tons	Algoma Sinter gross tons	Iron net tons	Raw steel net tons	Shipments of steel products net tons	Income $	Cost of products sold $	Adminis-trative and selling $	Interest and expense on debt $	Depreciation and amortization $	Income taxes $	Equity in earnings of associated company $	Net earning $
1972	2490	1758	2288	2426	1740	310.4	263.0	8.0	6.6	20.6	(.3)	5.3	17.8
1971	2202	1639	2136	2360	1681	273.2	230.2	6.0	6.3	18.9	.1	3.4	36.6
1970	2701	1511	2440	2495	1745	258.8	214.7	5.9	4.0	18.3	(6.4)	1.6	23.9
1969	2301	1142	1705	1725	1243	185.3	160.6	5.6	3.1	17.5	(9.8)	2.2	10.5
1968	2253	1723	2189	2261	1549	219.1	175.0	5.1	3.0	18.6	(1.4)	1.6	20.4
1967	1841	1562	1957	2073	1451	202.5	159.2	5.6	1.5	17.6	4.5	1.7	14.8
1966	1685	1805	2241	2347	1715	238.0	175.3	5.7	1.2	16.5	15.5	2.5	26.3
1965	1674	1822	2289	2486	1768	243.6	169.5	4.8	1.3	15.1	22.9	2.9	32.9
1964	1591	1781	2261	2301	1670	226.4	158.2	4.6	1.4	14.5	20.5	1.2	28.4
1963	1672	1618	2077	2092	1520	205.8	142.2	4.3	1.5	13.1	18.8		25.9
1962	1443	1460	1772	1759	1297	180.2	128.1	3.7	1.5	11.6	14.2		21.1

SOURCE AND APPLICATION OF FUNDS (millions of dollars)

	Source							Application					
Year	Net earnings $	Depreciation and amortization $	Deferred income taxes $	Increase in equity of Assoc. Co. (7) $	Sale of invest-ments $	Long term debt $	Other —net (8) $	Fixed assets $	Investments reserved for expansion $	Reduction of debt $	Dividends paid $	Invest-ments $	Incre in work capi $
1972	17.8	20.6	(.4)	(3.7)		1.2	(2.2)	52.0		2.2	5.8	3.3	(30
1971	36.6	18.9		(2.3)	2.5	34.0	(3.0)	39.1		2.2	5.8	1.1	38
1970	23.9	18.3	(6.6)	(.3)			(.4)	31.0		1.0	5.8		(2
1969	10.5	17.5	(7.6)	(1.3)			9.8	40.4		.1	10.2		(21
1968	20.4	18.6	(3.7)	(.6)		9.3	11.7	23.2	10.0	1.9	11.6		9
1967	14.8	17.6	5.3	(.6)		20.7	7.5	39.0	10.0		11.6		4
1966	26.3	16.5	6.5	(1.5)			13.6	33.5	10.0	4.8	11.6	1.5	
1965	32.9	15.1	9.1	(2.1)			.6	25.2	15.0	3.1	10.4		1
1964	28.4	14.5	11.6	(.8)			16.3	37.5		1.7	9.3	27.5	(6
1963	25.9	13.1	5.7		16.1		9.4	31.5	15.0	1.8	8.7		13
1962	21.1	11.6	4.6				11.3	33.2	9.0	1.3	8.1		(3

(1) Figures restated from 1964 to reflect equity accounting for investment in associated company. Refer to Note 2 to Financial Statements.
(2) Includes an extraordinary credit of $21.5 million ($1.85 per share).
(3) After an extraordinary charge of $1.0 million.
(4) Statistics on shares adjusted for share subdivision in May 1966.

ITED AND SUBSIDIARIES

ERATING RESULTS 1972 - 1962[1]

ATISTICS RELATING TO EARNINGS (millions of dollars excepting per share data [4])

r	Dividends paid $	Net earnings retained in business $	Cash flow from earnings $	Per share: Net earnings $	Per share: Dividends paid $	Per share: Cash flow $	Cost of products sold as % of net sales (5) %	Income taxes as % of income %	Net earnings as % of: Income %	Net earnings as % of: Average shareholders' equity %	Net earnings as % of: Average invested capital (6) %
72	5.8	12.0	32.7	1.54	.50	2.82	84.7	(.1)	5.7	6.2	5.7
71	5.8	30.8	51.8	3.15(2)	.50	4.47(2)	84.6	.1	13.4	13.7	11.9
70	5.8	18.1	36.6	2.06	.50	3.15	83.4	(2.5)	9.2	9.8	8.8
69	10.2	.3	19.4	.90	.875	1.67	87.7	(5.3)	5.7	4.5	4.3
68	11.6	8.8	35.9	1.76	1.00	3.09	80.6	(.7)	9.3	8.9	8.0
67	11.6	3.2	35.1	1.27	1.00	3.03	79.3	2.2	7.3	6.6	6.1
66	11.6	14.7	48.0	2.26	1.00	4.13	74.1	6.5	11.0	12.2	11.3
65	10.4	22.5	55.6	2.84	.90	4.80	70.0	9.4	13.5	16.2	14.7
64	9.3	19.1	55.0	2.45	.80	4.74	70.0	9.0	12.5	15.1	13.4
63	8.7	17.2	45.1	2.24	.75	3.89	69.5	9.1	12.6	15.8	13.8
62	8.1	13.0	38.6	1.82	.70	3.33	71.5	7.9	11.7	14.7	12.6

LANCE SHEET SUMMARY (millions of dollars excepting per share data [4])

. 31	Working capital $	Non-current receivables $	Investments $	Investments reserved for expansion $	Net fixed assets $	Deferred charge or (credit) $	Long term debt $	Accrued past service pension cost $	Deferred income taxes $	Shareholders' equity $	Shareholders' equity per share $	Number of shares issued (000)	Number of shareholders
72	54.2		45.4		326.6	.7	76.8	16.3	39.1	294.7	25.41	11595	16191
71	84.2		38.4		293.7	.7	77.8	17.1	39.5	282.6	24.38	11595	17080
70	45.7	.6	37.5		272.6		46.0	19.0	39.5	251.9	21.70	11608	17566
69	48.6	.7	37.4		261.4		47.0	20.9	46.4	233.8	20.14	11608	16362
68	70.4	.7	36.1	10.0	238.9	9.9	47.1	20.7	64.7	233.5	20.11	11608	14796
67	61.4	1.6	35.4	10.0	235.7	6.5	39.7	17.8	68.4	224.7	19.36	11608	13936
66	56.7	1.6	36.1	10.0	212.8	6.9	19.0	18.4	63.2	223.5	19.25	11606	13284
65	56.7		33.2	15.0	196.0		23.9	11.8	56.7	208.5	17.98	11596	13912
64	54.8		31.1		186.7		26.9		47.6	198.1	17.09	11594	8744
63	60.8		2.9	15.0	164.0		28.6		34.9	178.8	15.45	11574	7863
62	47.6		6.5	9.0	146.2	(.4)	30.4		29.4	149.5	12.92	11572	7815

(5) Excludes expense of rearranging plant.
(6) Average of shareholders' equity plus long term debt less unamortized debenture expense at beginning and end of year.
(7) Excess of equity in earnings of associated company over dividends received.
(8) Includes investments reserved for expansion at end of each previous year.

DIRECTORS

*John B. Barber *Vice Chairman and Senior Vice President, The Algoma Steel Corporation, Limited*	Sault Ste. Marie, Ontario
*John D. Barrington *Mining Consultant and company director*	Toronto, Ontario
Keith Campbell *Vice President, Canadian Pacific Limited*	Montreal, Quebec
*Ross Dunn, Q.C. *Partner, McMillan, Binch, Barristers and Solicitors*	Toronto, Ontario
*David S. Holbrook *Chairman and President, The Algoma Steel Corporation, Limited*	Sault Ste. Marie, Ontario
Douglas Joyce *Senior Vice President - Operations, The Algoma Steel Corporation, Limited*	Sault Ste. Marie, Ontario
W. Earle McLaughlin *Chairman and President, The Royal Bank of Canada*	Montreal, Quebec
MacKenzie McMurray *Chairman and President, Dominion Bridge Company, Limited*	Montreal, Quebec
*M. C. G. Meighen, O.B.E. *Chairman, Canadian General Investments, Limited*	Toronto, Ontario
Dr. Egon Overbeck *President, Board of Management, Mannesmann, A.G.*	Dusseldorf, West Germany
Dr. Ulrich Petersen *Former member, Board of Management, Mannesmann, A.G.*	Dusseldorf, West Germany
Charles I. Rathgeb *President, Comstock International Ltd.*	Toronto, Ontario
Leonard N. Savoie *President and Chief Executive Officer, Algoma Central Railway*	Sault Ste. Marie, Ontario
*Dr. G. Wagner *North American Representative, Mannesmann, A.G.*	New York, N.Y., U.S.A.

*Member of Executive Committee

HONORARY DIRECTORS

Hon. T. A. Crerar *Retired Senator*	Victoria, British Columbia
Henry S. Hamilton, Q.C. *Barrister*	Sault Ste. Marie, Ontario
E. Gordon McMillan, Q.C. *Partner, McMillan, Binch, Barristers and Solicitors*	Toronto, Ontario

PRINCIPAL OFFICERS

David S. Holbrook	Chairman and President
John B. Barber	Vice Chairman and Senior Vice President
Douglas Joyce	Senior Vice President - Operations
Ross H. Cutmore	Vice President - Finance
Donald A. Machum	Vice President and Assistant to the President
John Macnamara	Vice President and Works Manager - Steelworks Division
Brian W. H. Marsden	Vice President - Administration
C. Carson Weeks	Vice President - Sales
Peter M. Nixon	Assistant Vice President - Raw Materials
R. Gordon Paterson	Assistant Vice President - Engineering and Construction
Joseph D. R. Potter	Secretary
C. E. McLurg	Treasurer
William J. Reed	Comptroller

EXECUTIVE OFFICES	Sault Ste. Marie, Ontario
WORKS AND OPERATIONS	The Algoma Steel Corporation, Limited Steelworks Division, Sault Ste. Marie, Ontario Tube Division, Sault Ste. Marie, Ontario Canadian Furnace Division, Port Colborne, Ontario Algoma Ore Division, Michipicoten District, Ontario Marine Division, Sault Ste. Marie, Ontario
SUBSIDIARY COMPANY WORKS AND OPERATIONS	Cannelton Industries, Inc., Cannelton, West Virginia Cannelton Coal Division Kanawha Mines, Cannelton, West Virginia Pocahontas Mines, Superior, West Virginia Chippewa Tube Division, Dafter, Michigan Maple Meadow Mining Company Maple Meadow Mine, Fairdale, West Virginia Cannelton Iron Ore Company

THE ALGOMA STEEL CORPORATION, LIMITED

INCORPORATION	Under the laws of the Province of Ontario
SHARE TRANSFER AGENTS AND REGISTRARS	Montreal Trust Company, Saint John, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver The Royal Bank of Canada Trust Company, New York
SHARES LISTED	Montreal, Toronto and Vancouver stock exchanges
TRUSTEE FOR DEBENTURES	Montreal Trust Company, Toronto, Ontario
REGISTRAR FOR DEBENTURES	Montreal Trust Company, Montreal, Toronto, Winnipeg and Vancouver

THE ALGOMA STEEL CORPORATION, LIMITED

SALES OFFICES

Sault Ste. Marie, Ontario
Saint John, New Brunswick
Montreal, Quebec
Toronto, Ontario
Hamilton, Ontario
Windsor, Ontario
Winnipeg, Manitoba
Vancouver, British Columbia

PRODUCTS

Algoma Sinter
Coke
Coal Tar Chemicals
Pig Iron
Ingots, Blooms, Billets and Slabs
Wide Flange Shapes
Welded Wide Flange Beams and Columns
H-Bearing Piles
Standard Angles, Channels and Beams
Elevator Tees
Zees and Special Car Building Sections
Bevelled Edge Grader Blade Bars
Heavy and Light Rails
Tie Plates and Splice Bars
Hot Rolled Bars
Reinforcing Bars
Forged Steel Grinding Balls
Grinding Rods
Hot Rolled Sheet and Strip
Cold Rolled Sheet and Strip
Skelp
Plate
- Sheared and Gas Cut
- Universal Mill
- Floor

Seamless Pipe and Tubes
- Oil Well Casing
- Line Pipe
- Standard Pipe
- Mechanical Tubing
- Couplings